

**INVESTMENT COMMITTEE, WASHOE COUNTY, NEVADA
MINUTES OF MEETING**

WEDNESDAY: February 2, 2022 10 a.m.

PRESENT: Vaughn Hartung, Chair
Alexis Hill, Commissioner (Via Zoom)
Tammi Davis, Treasurer
Eric P. Brown, County Manager
Christine Vuletich, Chief Financial Officer
Cathy Hill, Comptroller

STAFF: Michael Large, Legal Counsel
Brenda Mathers, Chief Deputy Treasurer

FHN: Rick Phillips, President and Chief Investment Officer, FHN

OTHER:

The Washoe County Investment Committee met in the Caucus Room of the Washoe County Administration Complex, located at 1001 East Ninth St., Reno, Nevada. Chair Vaughn Hartung called the meeting to order, and Treasurer Tammi Davis called the roll. It was established that quorum was present, and the Committee conducted the following business.

AGENDA ITEM 2 – PUBLIC COMMENTS [NON-ACTION ITEM]

Agenda Subject: “Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee’s agenda.”

Chair Hartung called for any public comment and there was none.

AGENDA ITEM 3 – MINUTES [FOR POSSIBLE ACTION]

Agenda Subject: “Possible approval of minutes for the Washoe County Investment Committee’s November 3, 2021, meeting. Board members may identify any additions or corrections to the draft minutes as transcribed.”

Treasurer Davis introduced this agenda item. Chair Hartung called for any questions, and there were none. Commissioner Alexis Hill moved to approve the minutes as written, and Treasurer Davis seconded. The motion passed unanimously.

AGENDA ITEM 4 – UPDATE AND DISCUSSION REGARDING CERTIFICATION OF THE WASHOE COUNTY INVESTMENT MANAGEMENT PLAN BY THE GOVERNMENT INVESTMENT OFFICERS ASSOCIATION (GIOA) [NON-ACTION ITEM]

Agenda Subject: “The Treasurer will provide an update on certification and Committee Members may discuss the certification.”

Treasurer Davis introduced this agenda item and explained that at the November 2021 meeting the committee went through an extensive review of the County’s investment management plan and approved updates. Upon completion of the review, the plan was submitted for certification through the Government Investment Officer’s Association (GIOA), and it was subsequently received. Chair Hartung congratulated Treasurer Davis and the group on this accomplishment.

AGENDA ITEM 5 – UPDATE AND DISCUSSION REGARDING WASHOE COUNTY’S INVESTMENT PORTFOLIO [NON-ACTION ITEM] Agenda Subject: “The October-December 2021 quarterly report will be provided, and

Committee Members may discuss the report. Presentation by FHN Financial Main Street Advisors on the following: Washoe County's Investment Portfolio Strategy discussion and Economic Update."

Treasurer Davis introduced this agenda item and Rick Phillips with FHN presented the quarterly report.

ECONOMIC AND MARKET UPDATE

2022: A Year of Transition

With Great *Powell, Comes Great Responsibility

Jerome Powell, chair of the Board of Governors of the Federal Reserve System (the "Fed"), is arguably one of the most important people in the financial sector.

Monetary Policy's Transitional Year

The Fed meets approximately every six weeks and outcomes of those meetings are watched by financial advisors to forecast market conditions. One of the takeaways from the meeting was that they were 'of the mind' to raise rates at the March meeting. Interest rates had been at near zero for the last two years and the market has shown great strength. The Fed has two mandates: the labor market/full employment and stable prices of inflation, around 2%. The reason that rates were kept low was that the labor market was static but has since rebounded greatly, and now inflation is a challenge, rising to its highest in many years. After buying \$5 trillion in bonds to support stimulus, this will help reduce the balance sheet. Chair Hartung asked how the federal energy policy was impacting investments. Phillips responded that while the Fed doesn't control energy policy, energy is factored into the Consumer Price Index (CPI), and FHN does believe energy prices will hold inflation higher.

Why Do the Shorter Maturity Bond Buyers Watch the Fed a Bunch? Here's Why

Phillips explained that there is a close correlation between what the Fed does, and the cost of maturity bonds.

Future Interest Rates are a Function of Expected Growth and Inflation

Phillips reviewed information on U.S. GDP YOY and CPI YOY from September 2021 through December 2021, and it appears that GDP peaked in December 2021. In the Bloomberg forecast through September 2023, it is estimated that CPI would peak in March 2022, then gradually fall. Inflation is expected to decline but not to the Fed's target rate.

Highest Inflation in 40+ Years

Phillips reviewed information on the Consumer Price Index from 1965 through 2020 from the U.S. Bureau of Labor Statistics. CPI has reached a forty-year high, driven by challenges with wages and higher costs. Chair Hartung asked Phillips about supply chain issues impacting the economy. Phillips reported that the issues are improving but will take some time to fully resolve.

Presidents Typically Don't Want Higher Interest Rates... But

The President called on the Fed to rein in inflation. From February 2021 to February 2022, the president's average approval rating slid from 55.7% to 40.6%.

Washington D.C.'s Transitional Year? Pointing to Materially Less Fiscal Stimulus

Less fiscal stimulus going forward should have a dampening effect on inflation and is the reason why interest rates haven't sky-rocketed with 7% inflation.

Omicron Projected to Continue Declining...Not to Impact Economy Materially

The seven-day average for new Covid-19 cases in regions in the U.S., including Washoe County, have come down significantly and outlooks are positive for getting people back to work and resolving supply-chain issues.

Consumer Spending Has Been Strong But Forecasted to Slow with Less Stimulus

Phillips explained that following the Great Recession it took approximately three years to return to normal, and this correlates with the consolidated sales tax for Washoe County. There was a steady increase, followed by a sharp decline with the shut down, and an increase with the stimulus that is expected to come down as stimulus trickles out.

Fed to Hike Rates Into a Bearish Market in Stocks

Phillips reviewed Information charting the correlation between the NASDAQ 100 and percent drawdown from all-time highs from March 2020 through December 2022. Chair Hartung asked about the average debt to income ratio, and Phillips reported that generally households are in great shape, perforations are in pretty good shape, but the Federal Government has a lot of debt.

When Does the Futures Market Expect the Fed to Hike?

The futures market is used to graph the probabilities of when the Fed will hike rates and the prediction is for three, possibly four, hikes.

The Long-Term Trend of Lower Highs is Expected to Continue

Using the long-term history of Fed Funds, Phillips explained that it is expected for the trend of lower highs to continue with Fed Funds Futures staying around 2%.

Keeping an Eye on the Yield Curve

Phillips reviewed information on when the 10Yr/3M U.S. Treasury Curve has historically inverted for 10 consecutive trading days or more. He explained that typically the 10-Yr interest rate is a lot higher than the 3M, but when the 3M yield goes above the 10-Yr it can foreshadow trouble in the economy.

Former Fed Chair Bernanke: "It's the Fed Who Murders the Economy by Hiking Rates"

Information was reviewed tracking the Fed Funds rate from the early nineties through 2024 (projected). A correlation was shown between the Fed rate cuts and a steepening of the yield curve, and likewise, when the Fed raised rates, the yield curve began to flatten and possibly inverted. The relationship with the yield curve is closely watched.

First Yield Curve Canary in the Coal Mine?

An example of data was charted showing the Fed Funds rate impacts on treasury yield spreads from 2017 through January 2022.

Chair Hartung thanked Phillips for the presentation and moved to the next item.

AGENDA ITEM 6 – COMMITTEE MEMBER COMMENTS [NON-ACTION ITEM]

Agenda Subject: "This item is limited to announcements or issues proposed for future agendas and/or workshops."

Chair Hartung called for any committee member comments. Treasurer Davis reminded the group that she is retiring, and this was her last investment committee meeting. She introduced Linda Jacobs, the newly appointed Treasurer, who will fill the remainder of her term. Chief Financial Officer Vuletich and Chair Hartung thanked

Treasurer Davis for her service. Treasurer Jacobs thanked everyone and said she looks forward to working with the group.

AGENDA ITEM 7 – PUBLIC COMMENTS [NON-ACTION ITEM]

Agenda Subject: “Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee’s agenda.”

Chair Hartung called for public comment and there was none.

AGENDA ITEM 8 – ADJOURNMENT [NON-ACTION ITEM]

Chair Hartung adjourned the meeting.

Attachments to Minutes



Agenda Item 3 -
Minutes of 11-3 Me



Agenda Item 5 -
Washoe Co Investm